

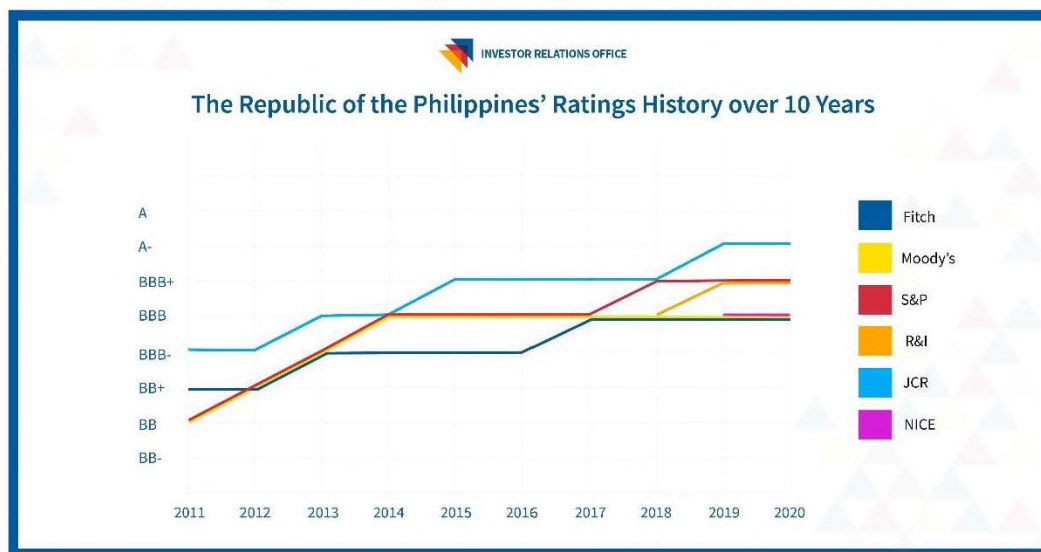


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Digitization and Central Bank Digital Currency

Macroeconomic Position

- The BSP expects GDP growth to rebound to about 7% in 2021.
- The BSP policies during 2020 have amounted to over 11% of GDP in additional liquidity in the economy.
- Gross international reserves are above 100 billion US dollars, which provides a safety net for the already-stable Peso.
- Inflation has risen to 4.7% in February 2021, above the 3%(+/-1%) target, but the BSP considers it a temporary increase driven by supply-side factors.
- International rating agencies have affirmed 'stable' outlook for the Philippines amid a sea of regional downgrades owing to strong macroeconomic fundamentals.



Digitization

Targets:

- 50 percent of all financial transactions to be done digitally and at least 70% of all Filipinos to have bank accounts by June 2023.
- QR-code interoperability according to a national standard by June 2020.

Main initiatives

Payments

- The main thrust of BSP policy has been towards digitizing payments. Governor Diokno's personal goal is to 'move to a cash-light or cash-less society'.
- Use of digital national payment systems have seen exponential growth during 2020 (see attached 'X' slide 'Y'). This has been supported by deregulation and waiving of fees.
- The 2019 financial inclusion survey found surprising trends, which the BSP's Digital Payments Roadmap seeks to reverse. While the majority of Filipinos have smartphones (69%) only 12% of these users utilize their gadgets for banking purposes.
- The Digital Payments Roadmap adopted in October 2020 sets the policy agenda to drive adoption of digital banking in three 'pillars', (I) digital payment stream (creating more use-cases of digital payments, such as Government subsidies paid straight to accounts) (II) digital finance infrastructure (including open banking), (III) digital governance standards (including international cybersecurity, data, and privacy standards)



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QR Codes

- In October 2019, the BSP set payment processors a target to standardize merchant QR-codes by June 2020.
- QR-codes would improve the efficiency of SMEs and promote financial inclusion by incentivizing the use of digital payments for everyday transactions.
- Progress on QR-code adoption is continuing as more Filipinos switch to digital banking during the pandemic.

Philsys

- The National ID system, which began in October 2020, will help accelerate financial inclusion. Under this program all Filipinos will have ID cards that satisfy banks' KYC requirements by 2022.
- More people will be able to actively participate in the country's economic activities and have access to financial aid via electronic transfer. Consecutive financial inclusion surveys have found that the leading cause of Filipinos not being able to open bank accounts have been identity checks.
- Rural, remote, and low-income households are prioritized in the Philsys program.

Other

- The BSP created a separate regulatory category for digital-only banks in December 2020 and has received applications for all available digital banking licenses already.
- To increase capacity of digitization initiatives, Governor Diokno appointed a new Deputy-Governor, Mamerto Tangonan in February 2021.
- 84,300 new online businesses registered between March and December 2020 – prompting even more growth in the digital sector as the economy adapted to the Covid-19 restrictions.

Central Bank Digital Currency

- The BSP currently has a research working group tasked with producing a policy recommendation on CBDC adoption, set up in July 2020.
- Governor Benjamin Diokno has said that he does not see a CBDC emerging until digitization efforts noticeably impact the economy, "so maybe in five years' time, we can have a CBDC in the country".
- Although he doesn't believe cryptocurrencies will ever replace banknotes or coins, central bank digital currencies (CBDCs), on the other hand, could very well become the next form of fiat money.
- Governor Diokno argued that CBDCs will be more attractive as a store of value and medium of exchange than private cryptocurrencies because they will be backed by the national economy and denominated in fiat currency.
- Based on the BSP's exploratory assessment, benefits of CBDCs include the facilitation of financial inclusion and a possible decline in cash usage, an additional option for monetary policy tools, as well as boosting competition and innovation in the payments system.
- On the other hand, risks that may arise from CBDCs include a loss of privacy for consumers, increased costs in the banking system due to possible competition between bank deposits and CBDCs, and threats of money laundering, terrorism financing, as well as cybersecurity issues.



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References and Further Reading

BSP Policies and Research

'No One Left Behind', BSP book on its financial inclusion journey:

https://www.bsp.gov.ph/Media_And_Research/Publications/BSP_No_One_Left_Behind.pdf

Digital Payments Roadmap:

https://www.bsp.gov.ph/Media_And_Research/Primers%20Faqs/Digital%20Payments%20Transformation%20Roadmap%20Report.pdf

'BSP Unbound' – a review of central banking during the Covid-19 pandemic:

https://www.bsp.gov.ph/Media_And_Research/Publications/BSP_Unbound.pdf

BSP Financial Inclusion Survey 2019:

<https://www.bsp.gov.ph/Inclusive%20Finance/Financial%20Inclusion%20Reports%20and%20Publications/2019/2019FISToplineReport.pdf>

BSP financial inclusion resources:

<https://www.bsp.gov.ph/SitePages/InclusiveFinance/InclusiveFinance.aspx>

Governor Diokno

Governor Diokno official biography:

<https://www.bsp.gov.ph/Pages/AboutTheBank/WhoWeAre/OrganizationAndGovernance/TheGovernor/ProfileOfTheGovernor.aspx>

Governor Diokno interview on Macro Musings, where he discusses CBDCs:

<https://www.mercatus.org/bridge/podcasts/12072020/governor-benjamin-diokno-bsp-policy-and-philippine-economy>

Governor Diokno Op'Ed on his approach to the Covid-19 crisis:

<https://asia.nikkei.com/Opinion/The-Philippines-is-fighting-the-COVID-19-crisis-head-on>

Governor Diokno Op'Ed on Philippines' potential to recover:

<https://www.scmp.com/comment/opinion/article/3098471/why-philippine-economy-poised-strong-recovery>

Additional statistics, materials, and briefing documents are attached to the email

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